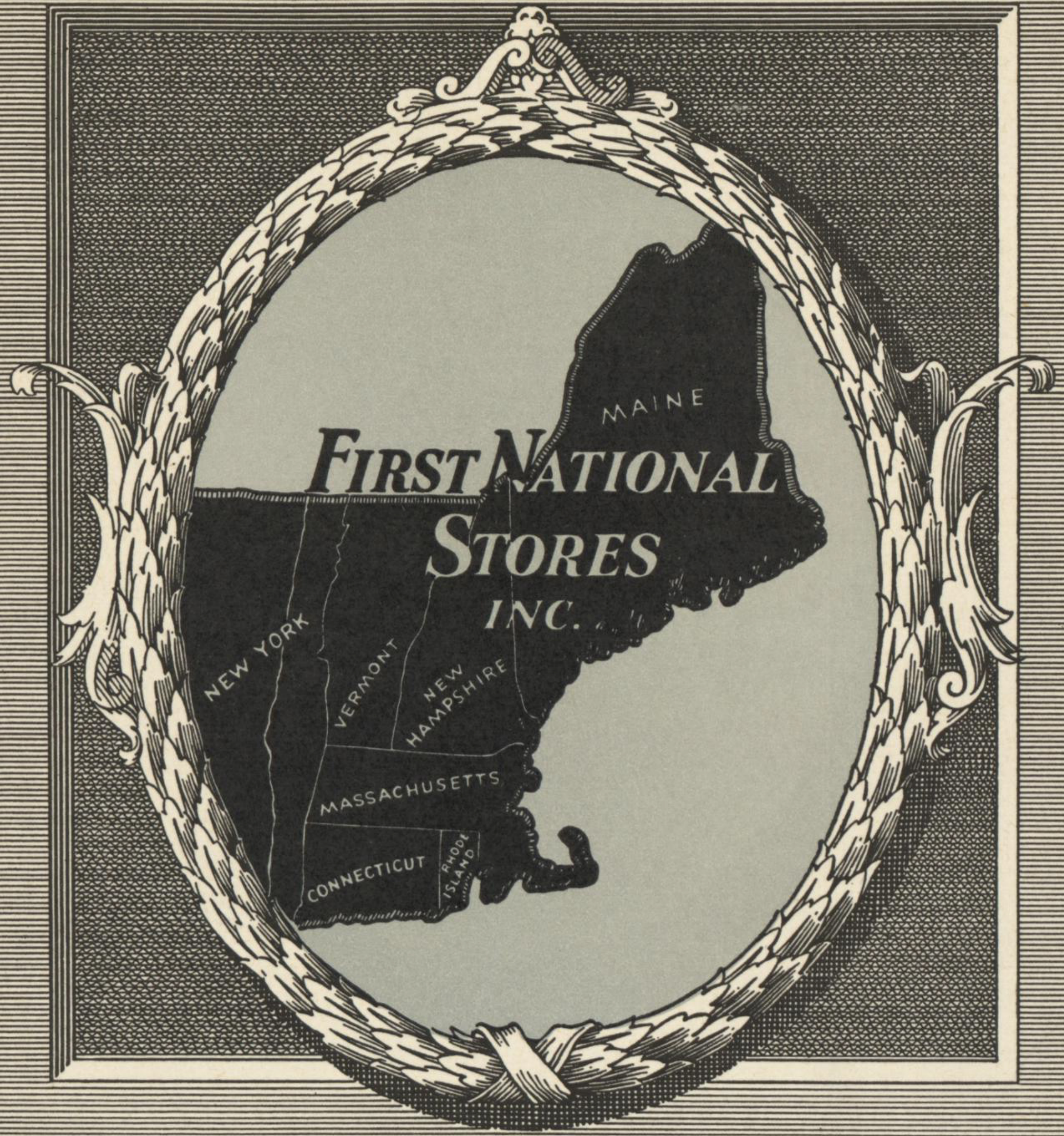


Annual Report
FIRST NATIONAL STORES INC.

year ending

March 31, 1951

FIRST NATIONAL STORES INC.

Officers

ADRIAN F. O'KEEFFE, *President*

RALPH F. BURKARD, *Treasurer*

JAMES C. DUANE	*Vice-President*
BYRON M. FLEMMING	*Vice-President*
JOHN L. MACNEIL	*Vice-President*
EDMUND J. MURPHY	*Vice-President*
JOHN E. ELWELL	*Clerk*

Executive Committee

RALPH F. BURKARD
JAMES C. DUANE
JOHN L. MACNEIL
ADRIAN F. O'KEEFFE

Directors

RALPH F. BURKARD
JAMES C. DUANE
BYRON M. FLEMMING
SAMUEL JOSELOFF
DANIEL J. LYNE
JOHN L. MACNEIL
JAMES J. O'HARE
ADRIAN F. O'KEEFFE
BERNARD M. O'KEEFFE

Somerville, Massachusetts, June 6, 1951

TO THE STOCKHOLDERS OF
FIRST NATIONAL STORES INC.:

Sales for the fiscal year ending March 31, 1951 showed an increase of 8.04% over the previous fiscal year and amounted to $371,853,140. Retail food prices, according to the index of the Massachusetts Commission on the Necessaries of Life, averaged 4.2% higher for the year—thus indicating an approximate increase of 4% in tonnage of goods sold.

Earnings (after charging approximately $750,000 after taxes to operations as required by the Lifo inventory method) were $7.49 per common share compared with earnings of $8.55 per share in the prior year where we had an addition to earnings of approximately $100,000 after taxes from the Lifo inventory method.

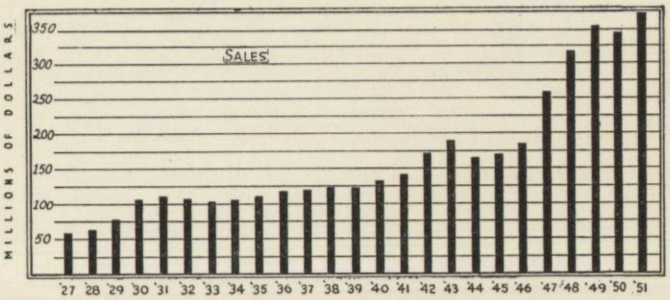
The Lifo inventory method, which we adopted in 1941, has the effect of reducing earnings during periods of rising prices and conversely of adding to earnings in periods of price decline.

A condensed comparative summary of our operations follows:

	For the Fiscal Year Ending	
	March 31, 1951	*April 1, 1950*
Retail Stores Sales	$371,853,140	$344,171,022
Net profits after taxes, depreciation and other charges	$ 6,134,530	$ 6,997,980
Per share on common stock	$7.49	$8.55

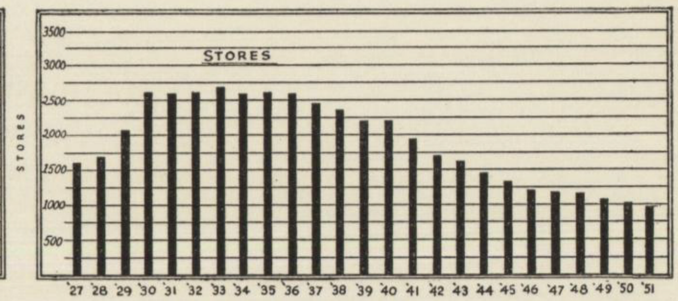
	As of	
	March 31, 1951	*April 1, 1950*
Net working capital (current assets less current liabilities)	$ 13,653,690	$ 11,897,741
Fixed or property assets (less depreciation)	$ 31,116,874	$ 29,548,890
Stockholders' equity (net worth)	$ 48,488,976	$ 45,219,438
Earnings used in the business (appropriated and unappropriated)	$ 41,752,697	$ 38,483,159

On the following page graphic charts show the results of our operations for the past twenty-five years.



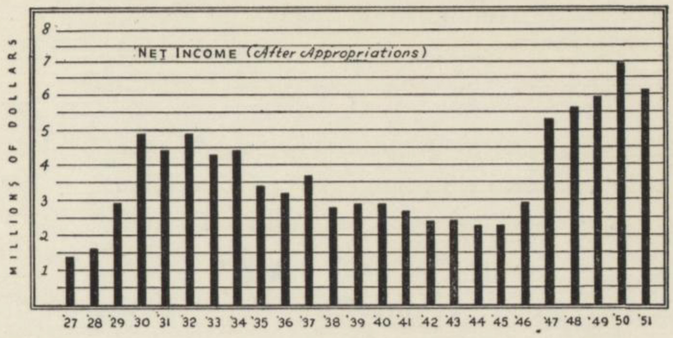
Retail Stores Sales—Fiscal Years

1927	$59,038,304	1935	$111,323,463	1943	$187,839,592
1928	64,445,962	1936	119,575,417	1944	164,924,978
1929	75,884,639	1937	120,682,961	1945	170,236,678
1930	107,635,216	1938	124,294,617	1946	182,131,241
1931	108,196,686	1939	124,222,955	1947	256,506,910
1932	107,634,383	1940	131,041,157	1948	315,915,554
1933	100,892,947	1941	142,680,921	1949	354,444,614
1934	105,812,781	1942	174,378,932	1950	344,171,022
				1951	371,853,140



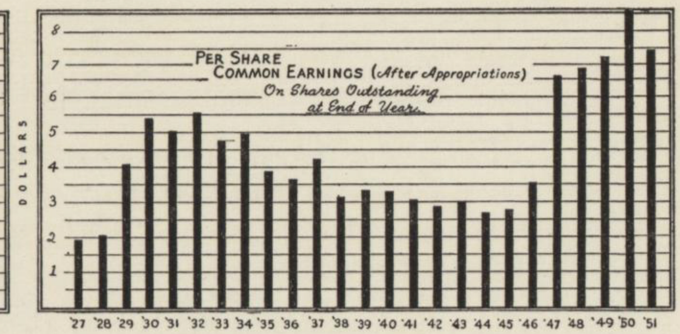
Stores—Fiscal Years

1927	1681	1935	2623	1943	1585
1928	1717	1936	2556	1944	1463
1929	2002	1937	2473	1945	1340
1930	2549	1938	2350	1946	1236
1931	2548	1939	2244	1947	1201
1932	2546	1940	2137	1948	1150
1933	2705	1941	1923	1949	1083
1934	2653	1942	1748	1950	1033
				1951	979



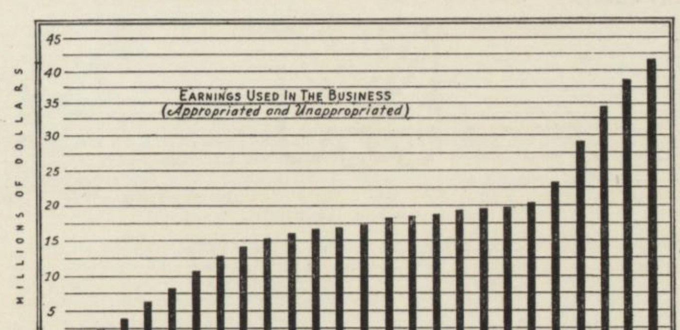
Net Income—Fiscal Years

1927	$1,492,193	1935	$3,433,504	1943	$2,465,079
1928	1,593,358	1936	3,163,329	1944	2,235,104
1929	2,904,884	1937	3,647,001	1945	2,294,604
1930	4,773,446	1938	2,705,191	1946	2,885,555
1931	4,479,108	1939	2,774,366	1947	5,357,235
1932	4,825,611	1940	2,739,074	1948	5,629,705
1933	4,220,099	1941	2,508,719	1949	5,905,880
1934	4,394,830	1942	2,380,294	1950	6,997,980
				1951	6,134,530



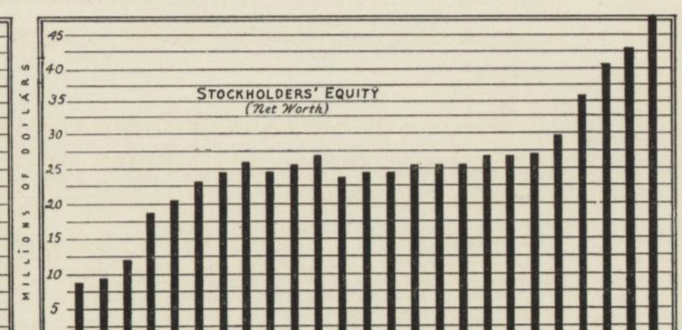
Per Share Common—Fiscal Years

1927	$1.92	1935	$3.89	1943	$3.01
1928	2.09	1936	3.65	1944	2.73
1929	4.07	1937	4.24	1945	2.80
1930	5.39	1938	3.14	1946	3.52
1931	5.03	1939	3.38	1947	6.54
1932	5.52	1940	3.34	1948	6.87
1933	4.78	1941	3.06	1949	7.21
1934	4.97	1942	2.90	1950	8.55
				1951	7.49



Earnings Used in The Business—Fiscal Years

1927	$1,996,375	1935	$15,121,448	1943	$19,308,135
1928	2,238,303	1936	16,062,827	1944	19,496,819
1929	3,987,782	1937	16,670,118	1945	19,745,003
1930	6,369,726	1938	16,688,036	1946	20,334,138
1931	8,371,910	1939	17,423,131	1947	23,235,669
1932	10,816,321	1940	18,112,565	1948	29,189,624
1933	12,666,672	1941	18,572,964	1949	34,350,171
1934	14,213,494	1942	18,889,476	1950	38,483,159
				1951	41,752,697



Stockholders' Equity—Fiscal Years

1927	$8,723,782	1935	$24,820,470	1943	$26,044,414
1928	8,965,710	1936	25,761,849	1944	26,233,098
1929	11,724,410	1937	26,369,140	1945	26,481,282
1930	18,347,148	1938	23,746,089	1946	27,070,417
1931	20,349,333	1939	24,216,168	1947	29,971,948
1932	22,793,743	1940	24,874,883	1948	35,925,903
1933	24,644,049	1941	25,293,286	1949	41,086,450
1934	26,190,916	1942	25,625,755	1950	45,219,438
				1951	48,488,976

DIVIDENDS PAID

For the fiscal year ending March 31, 1951, dividends totalling \$3.50 per share were paid on the common stock outstanding—four quarterly dividends of 75¢ a share and a special dividend of 50¢ a share.

STORES

	March 31, 1951	*April 1, 1950*
Number of Stores in operation	979	1,033

On March 31, 1951 we were operating 54 fewer stores than on April 1, 1950. Of 605 grocery stores, 267 are of Self-Service type and of 374 markets, 320 are Self-Service Super Markets.

TAXES

Our total direct tax bill for the fiscal year ending March 31, 1951 amounted to \$8,632,385. This amounts to 58% of our profits before taxes for the year and equals \$10.55 for each share of our Common Stock.

A summary of our direct taxes follows:

Fiscal Year	*Total Direct Taxes*	*% of Income (before taxes)*	*Per Share On Common*	*Per Store Operated*
1951	\$8,632,385	58%	\$10.55	\$8,818
1950	7,934,726	53%	9.69	7,681
1945	4,776,961	67%	5.83	3,564
1940	1,656,274	37%	2.02	753
1935	1,111,096	24%	1.36	420
1930	796,693	14%	.97	324

COMMENTS

Working capital at March 31, 1951 was \$13,653,690, an increase of \$1,755,949 over the amount at the end of our previous fiscal year. Bank loans of \$8,000,000 at March 31, 1951 were \$6,000,000 greater than at April 1, 1950. This increase in bank borrowings was necessitated by the increase in our inventory. Presently this loan is being reduced through the seasonal reduction in our inventory.

We report the opening of eleven new super markets during the past year, seven of which are leased and four owned by your company. Seven of these new super markets replaced inadequate existing units. Modernization by remodelling, and in some instances by enlargement, was accomplished in twenty-seven existing super markets. Ten new self-service grocery stores were opened during the year and nine were closed. Air-conditioning installations have been made in some of our new super markets.

It is our plan to continue the store development and modernization program within the limits of defense regulations. We have several new buildings in progress, and it is our belief that authorization for additional units may be obtained in locations where conditions justify approval by The National Production Authority.

With construction regulated and steel and other necessary materials scarce, it is fortunate that the major part of our warehouse development and modernization program has been accomplished. The new modern one-story warehouse in Providence, Rhode Island, our last major warehouse project, has been in operation since last December. Satisfactory gains in operating efficiency have been achieved in this distributing plant. Minor improvements in our Somerville plant are currently being made.

The large expenditures for warehouse and selling facilities that have been made during the past few years will, in our opinion, prove a wise investment. We are always conscious that in our highly competitive industry it is necessary to employ the most economical methods and the most efficient equipment. Our existing plants are now well equipped and operating at a high level of efficiency.

With food retailing again under price controls, the importance of maintaining sales and an efficient operation is increased. At this time it is not possible to determine the effect of controls on our business. While the first indications are that these new regulations will cause a narrowing of the industry's historically small profit margin, much will depend upon the action of the Office of Price Stabilization in correcting price inequities and in greater measure upon our ability to maintain and increase our sales volume. Indications are that production of food will be at record levels this year. If control measures do not cause a diversion of this supply from normal channels into black markets, ample supplies for our needs should be available.

The uncertainties created by Government controls obscure the outlook for the coming months. Your management, conscious of the additional responsibilities imposed by controls, is confident of the ability of our organization to meet and solve the accompanying problems.

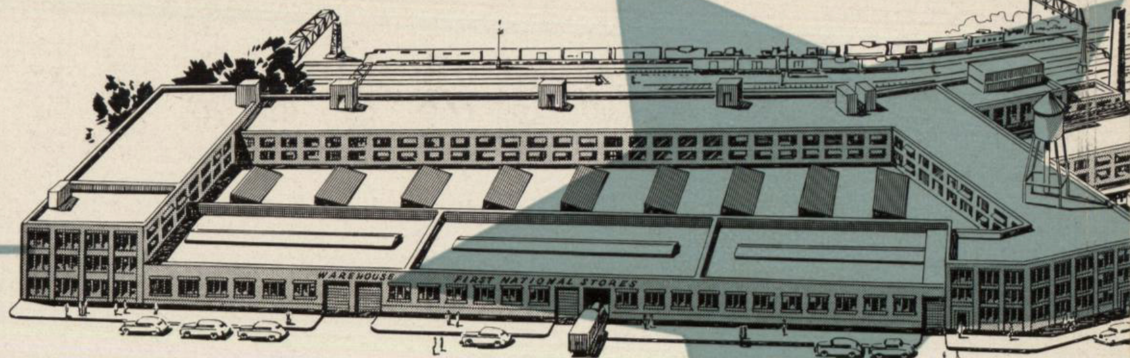
In concluding this report, we wish to express our appreciation to all the men and women of First National Stores for their loyal support in our continuing effort to serve our customers economically and well.

ANNUAL MEETING—PROXIES

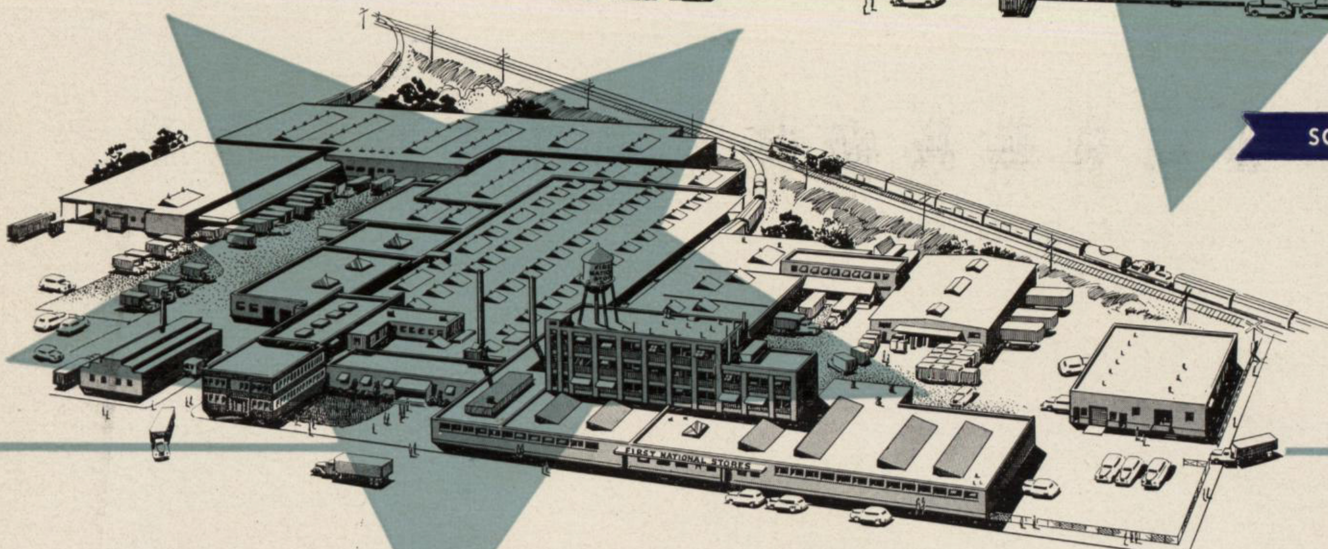
A notice of the annual meeting of stockholders, proxy statement and proxy accompany this report. Stockholders ARE REQUESTED TO SIGN THE MANAGEMENT'S AUTHORIZED PROXY AND MAIL PROMPTLY IN THE ENVELOPE PROVIDED. Your immediate attention to this important matter will be greatly appreciated and will save your company considerable time and expense.

ADRIAN F. O'KEEFFE,
President

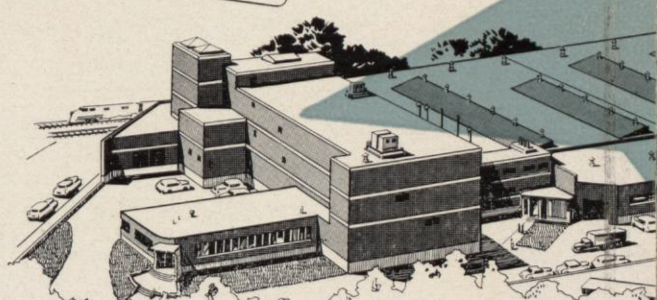
First National Stores not only *sell*, but also *process* a list of no less than 167 fine foods. To prepare these foods, some of which are shown here, First National operates complete bakeries, kitchens, canneries, bottling plants, meat processing plants, tea and coffee plants, etc.

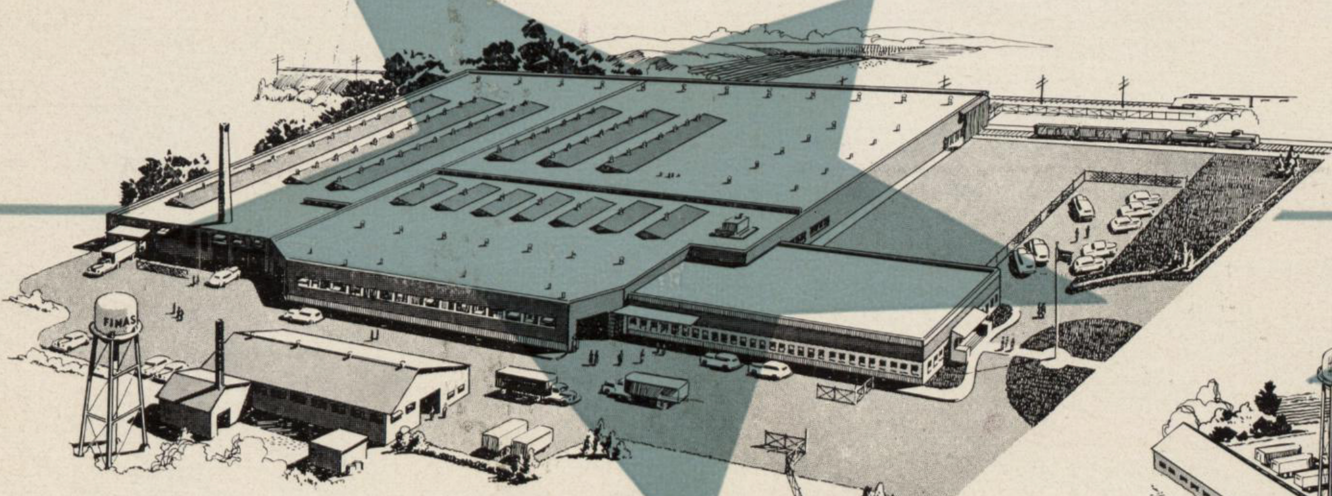


SOMERVILLE, MASS.

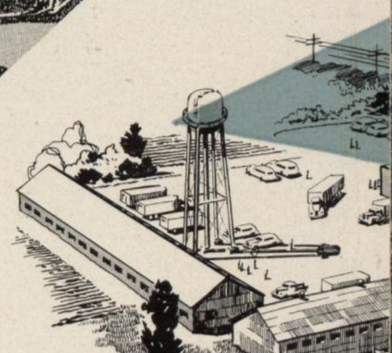


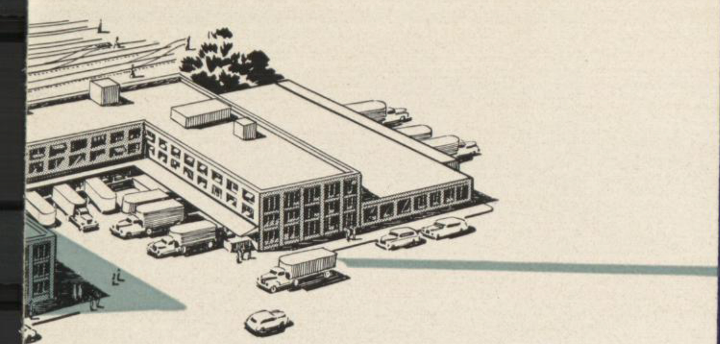
HARTFORD, CONN.

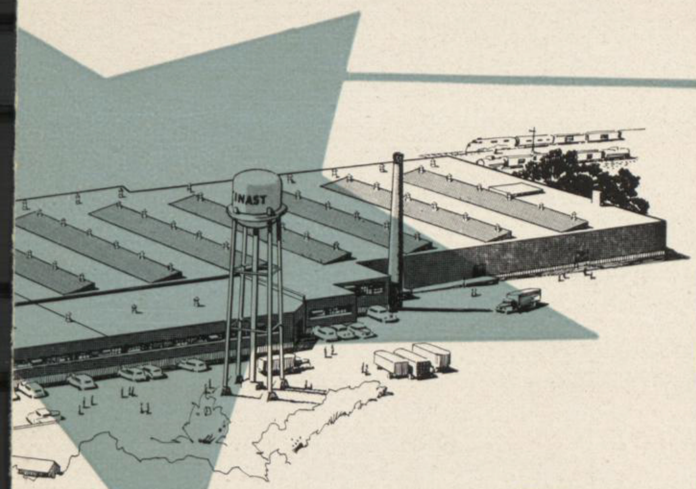




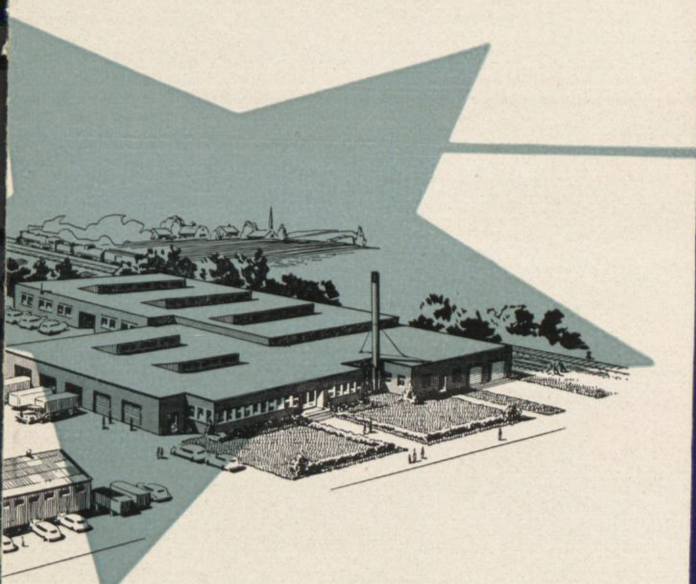
PROVIDENCE, R. I.







PORTLAND, MAINE



NORTH HAVERHILL, N. H.

The enormous task of supplying more than 979 First National Stores in over 400 communities from Maine through Westchester County, N.Y. is accomplished by five strategically located distributing plants.

The Portland, Me. plant services 108 stores in Maine, Vermont and northern New Hampshire.

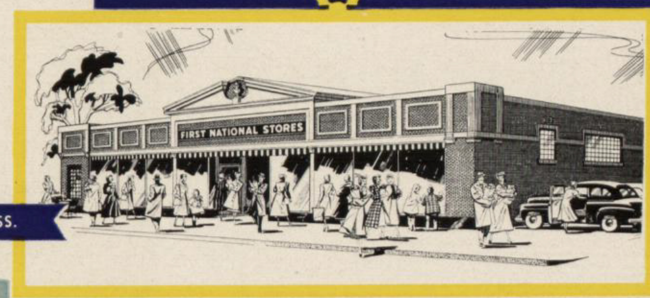
The Somerville, Mass. plant services 379 stores in eastern and central Massachusetts and southern New Hampshire.

The North Haverhill, N.H. plant services 47 stores in Vermont and northern New Hampshire.

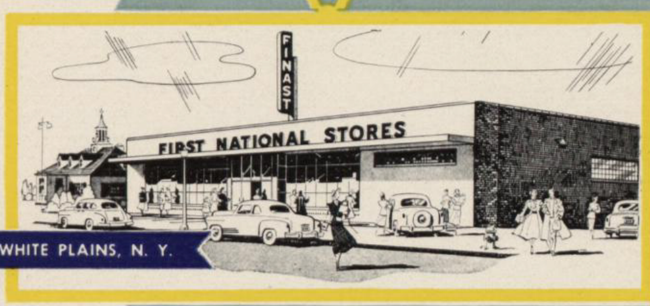
The Providence, R.I. plant services 158 stores in Rhode Island and south and southwest Mass.

The Hartford, Conn. plant services 287 stores in Connecticut, Westchester County, N.Y. and as far west as Poughkeepsie, N.Y. and western Mass.

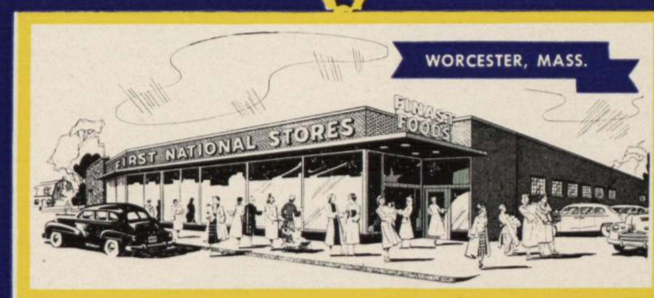
As the largest retailer of fine foods, in our operating area, First National Stores are constantly improving their marketing facilities. 112 new stores and 122 completely remodelled First National Stores have been opened since 1946 to give the public the finest food shopping service available.



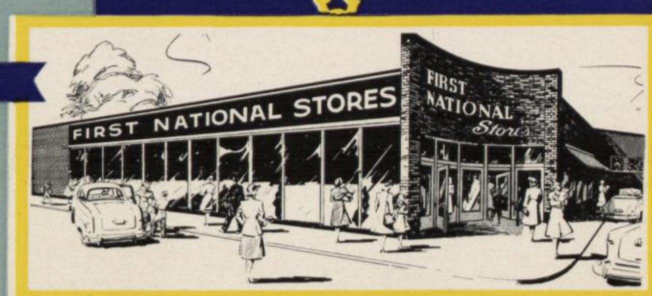
ARLINGTON, MASS.



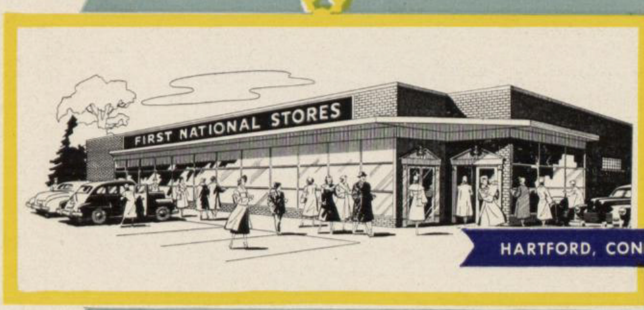
WHITE PLAINS, N. Y.



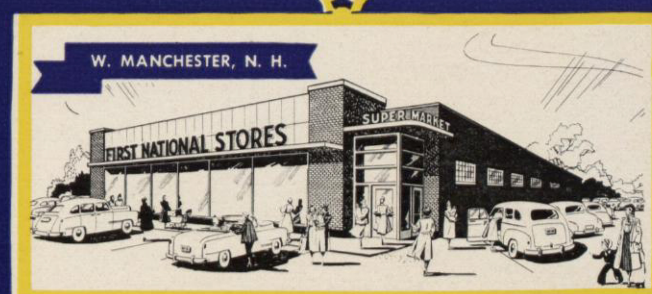
WORCESTER, MASS.



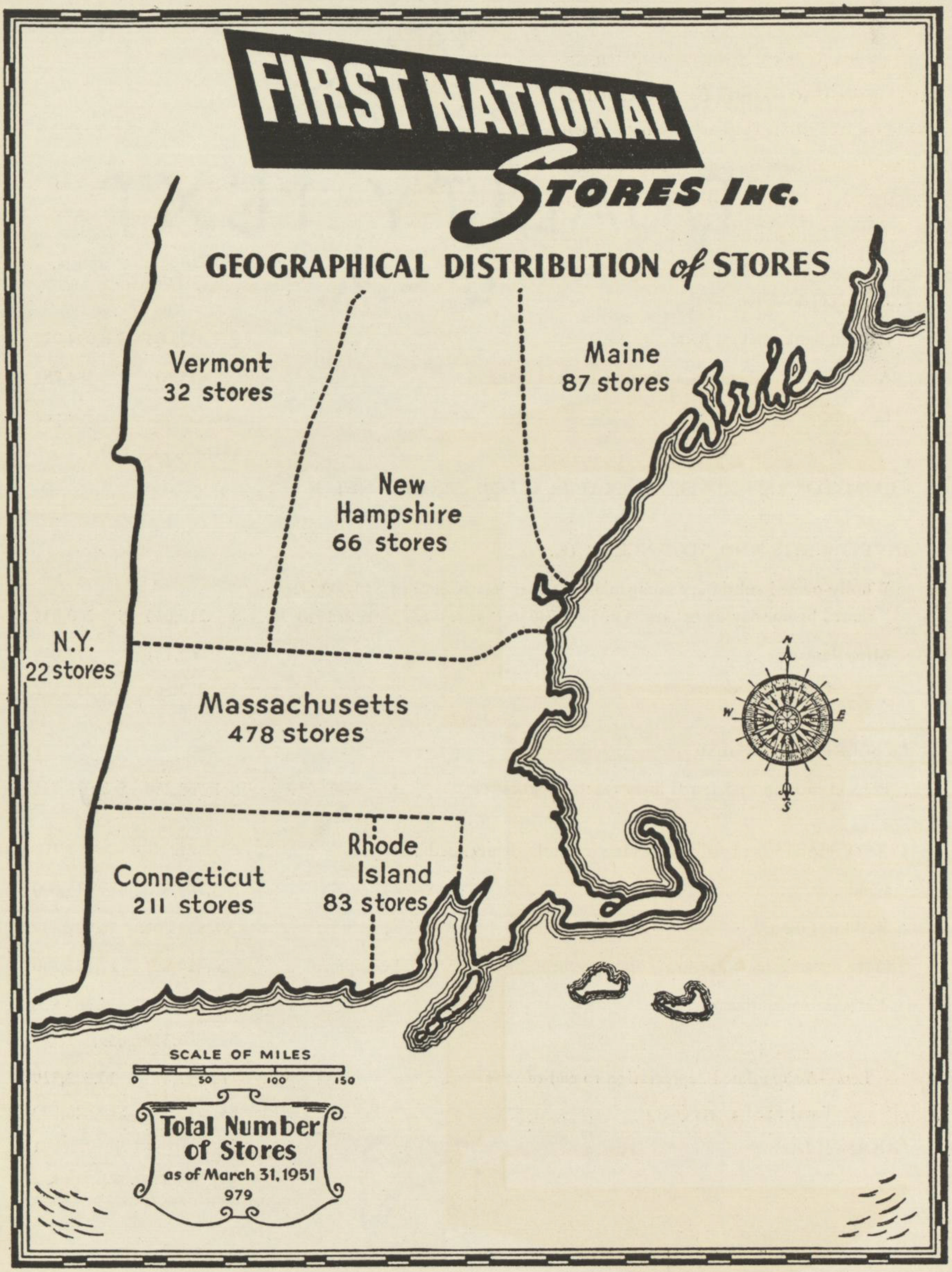
BANGOR, MAINE



HARTFORD, CONN.



W. MANCHESTER, N. H.


FIRST NATIONAL
STORES INC.
GEOGRAPHICAL DISTRIBUTION of STORES
Vermont
32 stores
Maine
87 stores
New
Hampshire
66 stores
N.Y.
22 stores
Massachusetts
478 stores
Rhode
Island
83 stores
Connecticut
211 stores
N
W
E
S
SCALE OF MILES
0
50
100
150
Total Number
of Stores
as of March 31, 1951
979

FIRST NATIONAL STORES INC.

Comparative Balance Sheet

ASSETS

	March 31, 1951	April 1, 1950
CURRENT ASSETS:		
Cash in banks and on hand	$ 9,437,003	$ 8,094,027
Accounts receivable, less allowance for bad debts	875,605	584,287
Inventories (Note 1)	31,356,697	24,794,282
Total current assets	$41,669,305	$33,472,596
CLAIMS FOR REFUNDS OF FEDERAL TAXES ON INCOME—NET (Note 1)	$ 2,950,000	$ 2,850,000
INVESTMENTS AND ADVANCES, ETC.:		
Wholly-owned subsidiary companies—at cost less reserve of $40,000 (represented by underlying net assets of $868,046 in 1951 and $827,308 in 1950)	$ 210,833	$ 260,833
Miscellaneous	62,131	79,039
Total investments, etc.	$ 272,964	$ 339,872
DEFERRED CHARGES:		
Prepaid insurance, deferred local taxes, supplies, etc.	$ 1,788,286	$ 2,023,225
FIXED ASSETS (at cost, after deducting fully-depreciated assets):		
Land	$ 3,189,820	$ 3,015,600
Buildings owned	18,559,204	16,989,499
Store fixtures, leased property improvements, machinery and equipment	20,414,897	17,881,240
Automotive equipment	1,704,438	1,684,870
	$43,868,359	$39,571,209
Less—Accumulated depreciation to end of year	12,751,485	10,022,319
Total fixed assets (net)	$31,116,874	$29,548,890
GOODWILL	$ 1	$ 1
	$77,797,430	$68,234,584

FIRST NATIONAL STORES INC.

Comparative Balance Sheet

LIABILITIES

	March 31, 1951	April 1, 1950
CURRENT LIABILITIES:		
Notes payable to banks	$ 8,000,000	$ 2,000,000
Accounts payable	8,561,423	8,871,861
Owing to subsidiary companies	221,691	339,381
Accrued local and state taxes and other expenses	4,796,681	4,290,737
Employees' investment certificates	148,130	161,340
Federal taxes on income	6,287,690	5,911,536
Total current liabilities	$28,015,615	$21,574,855
RESERVES:		
For past service premiums under retirement annuity plan	$ 1,140,359	$ 1,256,273
Miscellaneous operating reserves	152,480	184,018
Total reserves	$ 1,292,839	$ 1,440,291
STOCKHOLDERS' EQUITY:		
Common stock—		
Authorized—1,000,000 shares without par value		
Issued—827,634 shares	$ 6,977,422	$ 6,977,422
Earnings used in the business:		
Appropriated for—		
Future price declines of inventories in retail stores, not valued on basis of last in, first out	$ 4,400,000	$ 4,400,000
Contingencies, etc.	704,258	704,258
Unappropriated, per accompanying statement	36,648,439	33,378,901
	$41,752,697	$38,483,159
Together	$48,730,119	$45,460,581
Deduct—		
Common stock held in treasury—9,057 shares, at reduced amount carried on books	$ 241,143	$ 241,143
Total stockholders' equity	$48,488,976	$45,219,438
	$77,797,430	$68,234,584

TO THE STOCKHOLDERS OF FIRST NATIONAL STORES INC.:

In our opinion, the accompanying balance sheet and the related statements of earnings and unappropriated earnings used in the business fairly present the financial position of First National Stores Inc. at March 31, 1951, and the results of its operations for the fiscal year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

This opinion is based on an examination of the financial statements which was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

PRICE WATERHOUSE & CO.

Boston, Massachusetts
May 29, 1951

FIRST NATIONAL STORES INC.

Comparative Statement of Earnings

	Fiscal Year Ending March 31, 1951	Fiscal Year Ending April 1, 1950
Sales and revenues:		
Retail store sales	$371,853,140	$344,171,022
Interest and dividends received:		
From subsidiaries (Note 2)	8,000	11,000
From others	3,691	4,298
	$371,864,831	$344,186,320
Costs and expenses:		
Cost of sales, expenses, etc. (exclusive of depreciation)—(Note 1)	$355,247,066	$327,660,589
Provision for depreciation of fixed assets (including accelerated depreciation of $1,516,843 in 1951 and $1,382,734 in 1950—Note 3)	4,486,841	3,780,934
Interest paid	118,448	79,639
Loss on disposition of fixed assets (net)	9,946	97,178
Provision for federal taxes on income (including $20,000 excess profits tax in 1951)	5,790,000	5,450,000
	$365,652,301	$337,068,340
	$ 6,212,530	$ 7,117,980
Deduct:		
Net adjustment resulting from replacement of inventories valued on last in, first out basis, involuntarily liquidated in prior years (Note 1)	78,000	120,000
Net earnings for the year	$ 6,134,530	$ 6,997,980

Statement of Unappropriated Earnings Used in the Business for the Fiscal Year Ending March 31, 1951

Balance, April 1, 1950	$ 33,378,901
Net earnings for the fiscal year ending March 31, 1951—per statement above	6,134,530
	39,513,431
Deduct—Cash dividends paid	2,864,992
Balance, March 31, 1951	$36,648,439

NOTES TO FINANCIAL STATEMENTS

(1) Merchandise in retail stores was valued at approximate average cost (on the basis of first in, first out) which did not exceed market; other merchandise, materials and supplies (aggregating $19,034,985 at March 31, 1951 and $14,229,970 at April 1, 1950) were valued at cost on the basis of last in, first out, or at market where lower in the case of individual items.

Partial replacement has been made of inventories which were involuntarily liquidated in prior years and, as permitted by the Internal Revenue Code, the company has elected to value the items replaced at their original inventory prices. The excess cost of replacing a portion of the inventories which were involuntarily liquidated, less estimated refunds of $100,000 of federal taxes resulting therefrom, has been charged to profit and loss for the current year. The refund claims aggregating $2,950,000 shown in the accompanying balance sheet cover the fiscal years ending March 30, 1946 to March 31, 1951, inclusive.

The use of the last in, first out method and the application of the involuntary liquidation and replacement provisions of the tax law are subject to review and acceptance by the Bureau of Internal Revenue.

(2) The net earnings of the subsidiary companies (all wholly-owned and not consolidated) aggregated $98,738 in 1951 and $100,156 in 1950.

(3) The company has continued the policy of providing accelerated depreciation at the rate of 7½% per annum during the first two years of use on completed additions to warehouses, store fixtures, machinery and equipment, and of providing accelerated depreciation on store buildings in amounts based on estimated normal rental costs. The accelerated depreciation, which has not been deducted in computing the provision for federal taxes on income, is in addition to the normal depreciation on such facilities, but the total depreciation over their expected lives will not exceed the cost of the assets.

(4) At March 31, 1951 the company was obligated under 195 leases expiring after March 31, 1954. The aggregate of the minimum annual rentals under these leases is $1,104,270, and the aggregate amount charged against operations for the fiscal year ending March 31, 1951 under all leases was $2,719,430.